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**FORMER TEACHERS' RETIREMENT SYSTEM TRUSTEE AND
TWO CHICAGO LAWYERS INDICTED IN ALLEGED FRAUD SCHEME**

CHICAGO – A former trustee of the Illinois Teachers' Retirement System (TRS) and two prominent Chicago attorneys were indicted today on federal charges for allegedly fraudulently using and seeking to use the former trustee's position and influence to enrich him and his associates, federal officials announced. The former trustee, **Stuart Levine**, also a lawyer and a businessman, allegedly solicited, demanded, and received hundreds of thousands of dollars in undisclosed kickbacks and payments for himself, his nominees and his associates from investment firms seeking to do business with TRS. Two co-defendants, attorneys **Joseph Cari** and **Steven Loren**, allegedly assisted Levine in the scheme. TRS, a public pension plan for teachers and administrators in public schools statewide except in Chicago, serves approximately 325,000 members and beneficiaries and has assets in excess of \$30 billion.

Among the indictment's allegations are that Levine, with Cari's assistance, attempted to shake down a Virginia investment firm in the spring of 2004 for \$850,000 – equal to one percent of the \$85 million it was seeking from TRS to invest – by coercing the firm to sign a sham consulting contract with an individual identified by Levine. In communicating Levine's demand to two

attorneys for the investment firm, Cari allegedly said, “this is how things are done in Illinois,” according to the indictment.

Cari and Loren have both authorized the government through their attorneys to disclose that they are cooperating in the ongoing federal investigation, Patrick J. Fitzgerald, United States Attorney for the Northern District of Illinois, said in announcing the charges. Cari is expected to plead guilty to attempted extortion. Loren is expected to plead guilty to a federal tax charge.

Levine, 59, of Highland Park, was charged with eight counts of wire fraud, two counts of mail fraud, two counts of soliciting a bribe and one count of attempted extortion in a 14-count indictment that was returned today by a federal grand jury.

Cari, 52, of Chicago, a partner at Ungaretti & Harris, and a partner and managing director of a private equity firm that in 2003 received \$35 million in TRS funds to invest, was charged with one count of attempted extortion.

Loren, 50, of Highland Park, until recently a partner at Gardner, Carton & Douglas, where both he and the firm were outside counsel to TRS, was charged with one count of impeding the Internal Revenue Service.

All three defendants will be arraigned in U.S. District Court at date to be determined.

Mr. Fitzgerald announced the charges with Robert D. Grant, Special Agent-in-Charge of the Chicago Office of the Federal Bureau of Investigation; Kenneth T. Laag, Inspector-in-Charge of the U.S. Postal Inspection Service; Gordon S. Heddell, Inspector General of the U.S. Department of Labor; and Byram Tichenor, Special Agent-in-Charge of the Internal Revenue Service Criminal Investigation Division in Chicago.

“The Teachers’ Retirement System provides financial security for the school teachers in Illinois who work their entire careers while entrusting others to watch over their financial futures,” Mr. Fitzgerald said. “Sadly, one of their trustees, Levine, saw those funds not as a trust but as an opportunity to take care of insiders and connected people, at the expense of school teachers. Teachers’ retirement funds should be invested for the benefit of teachers, not trustees’ friends. It is particularly unfortunate that two attorneys helped Levine betray his trust for private gain.”

The indictment alleges that beginning no later than early 2002 and continuing through at least June 2004, Levine and others schemed to defraud TRS and its beneficiaries of money and property and the right to Levine’s honest services. It alleges that Levine intentionally concealed from and failed to disclose to the TRS board material information relating to its consideration of bids for funds from four unnamed investment firms – identified as Investment Firms 1, 2, 3 and 4 – including:

- Levine’s arrangement to direct finder’s fees to Individual A, who, in turn, would share his placement fees with people identified by Levine, in exchange for Levine’s assistance in obtaining TRS funds for investment companies. Individual A acted as a placement agent for Investment Firm 1, an asset management company in Chicago that solicited and received \$50 million in TRS funds to invest, and Individual A also acted as a placement agent for Investment Firms 2 and 3, the latter of which was a private equity fund affiliated with Investment Firm 1; and
- Levine’s attempt to force the Virginia real estate investment and asset management firm – identified as Investment Firm 4 – to enter into a sham consulting agreement requiring payments to a consultant identified by Levine, as well as his improper contacts, through Cari, with Investment Firm 4, in which Levine and Cari threatened that the firm would not receive TRS funds unless it agreed to hire and pay the consultant identified by Levine.

Regarding Investment Firm 4, the indictment alleges as part of the fraud scheme that in the spring of 2004, after the firm had submitted an application to receive funds from TRS, Levine, with Cari’s assistance, attempted to coerce the firm into entering into a sham consulting agreement with

a consultant designated by Levine, even though the consultant had performed no work (identified in the indictment as Individual D), and paying approximately \$850,000 to the consultant's company. Cari repeatedly told representatives of Investment Firm 4 that they had to sign a consulting contract or Investment Firm 4's bid would be taken off the agenda for the TRS board's May 2004 meeting and it would not receive funds from TRS.

According to the indictment, in March 2004, Investment Firm 4 made a presentation seeking funds to TRS staff, and in April, Levine spoke to Cari about the firm and began using Cari to communicate with the firm on his behalf, in violation of state law prohibiting contact between TRS board members and parties with pending matters before the board. Levine knew that the president of Investment Firm 4 was a friend of one of the partners in Cari's investment firm, the indictment alleges, adding that Levine told Cari that Levine thought he could assist Cari's investment firm, which was attempting to obtain money from others Illinois state pension funds. In 2004, Cari's investment firm was seeking investments from other Illinois public pension funds, and, at Cari's request, Levine had agreed to assist Cari's investment firm in seeking those investments, according to the indictment.

Subsequently, the indictment alleges the following events:

- ▶ In late April, Levine directed Loren to prepare a draft contract for Investment Firm 4, telling Loren that there was going to be a split of placement fees relating to the TRS investment in the firm. Levine directed Loren to include the amounts to be paid and the dates of payment but he did not give Loren the names of the parties, telling Loren instead to use "X" and "Y" in place of the parties' names;
- ▶ on May 1, Levine told Individual B, a medical doctor with whom he had a financial and personal relationship, that he would steer money to Individual B from either Investment Firm 4 or from Cari's investment firm. in the amount of approximately \$700,000;

- ▶ on May 5, Individual E, an attorney in the Turks & Caicos Islands who was associated with Individual D, attempted to contact the president of Investment Firm 4, and left a message stating that he was a TRS consultant. Investment Firm 4 had not had any previous contact with Individuals D or E, and had not sought the services of that consultant or used that consultant in its application to receive TRS funds;
- ▶ on May 6, less than three weeks before the next TRS board meeting, Levine told Cari that he was getting a little nervous, adding that although he hated to undo things, he would have to if Investment Firm 4 said they did not need Individual D and his company's consulting services. Levine said this had to be an absolute top priority and Cari said that he would follow up on the issue;
- ▶ after contact was made between Individual D and Investment Firm 4, on May 19, Individual E faxed a compensation agreement to Investment Firm 4 from the Turks & Caicos Islands. This was a revised copy of the draft contract prepared by Loren. The agreement provided that Investment Firm 4 would pay a finder's fee totaling approximately \$850,000 to Individual D's company, when, in fact, Individual D's company had provided no services to Investment Firm 4 in exchange for the contract payments;
- ▶ on May 20, at Levine's direction, Cari made a series of calls to Investment Firm 4 and spoke to the company's president and other representatives. Cari said that Investment Firm 4 was supposed to pay a finder's fee, and that this should have been taken care of already. Cari said that unless Firm 4 signed the consulting contract before the end of the day, its application would be dropped from the TRS board's agenda that month. Cari said that he was close to representatives of TRS and a high-ranking Illinois public official. Cari said that if Firm 4 did not enter into the consulting contract by the end of the day, the company was going to lose the TRS commitment. In a subsequent call that day, Cari spoke to two attorneys for Firm 4, telling them "this was how things are done in Illinois," the indictment states;
- ▶ shortly after May 20, because Investment Firm 4 had not signed the contract with Individual D, Levine directed a TRS staff member to pull Firm 4 off the agenda for the TRS board meeting. The staff member refused to do so, and Investment Firm 4 received approval for an investment by TRS of approximately \$85 million.

Regarding the finder's fee-splitting prong of the fraud scheme, the indictment alleges that Levine and Individual A agreed that Levine would use his position to assist Individual A in obtaining

TRS funds for various companies, including Investment Firms 1, 2 and 3, and, in return, Individual A would share his placement fees with individuals designated by Levine. After Levine and Individual A succeeded in obtaining \$50 million in TRS funds for Investment Firm 1 in August 2003, at Levine's direction, Individual A paid Individual C, an Illinois businessman, approximately \$250,000, which was about two-thirds of the \$375,000 placement fee that Individual A received from Investment Firm 1. Levine also directed Individual A to share with Individual B the fees that Individual A would receive when TRS funds were invested with Investment Firms 2 and 3.

In connection with this aspect of the scheme, the indictment alleges that in the summer of 2003, after Individual A had introduced Investment Firm 1 to TRS, Levine told Individual A that Individual A would have to split his finder's fee with a public official, whose name Levine provided. To conceal the fraudulent nature of any payments from Individual A to that public official, Individual A had a consulting contract drafted providing for payments to the public official, which Levine reviewed and approved. However, Levine subsequently told Individual A that the public official was not going to participate in the deal.

In furtherance of the alleged arrangement between Levine and Individual A, in the fall of 2003, Levine told Loren that he had arranged for Individual A to source potential investments for TRS and that Individual A would split his placement fees with certain individuals. Levine told Loren that Individual A was not the only person with whom he would have such an arrangement. At Levine's direction, Loren assisted Levine by advising Individual A as to the sorts of investments that TRS would consider and reviewing investment proposals submitted by Individual A and others, according to the indictment.

Similar to the sham consulting contract between Investment Firm 4 and Individual D's company, Levine asked Loren to prepare a draft contract that would justify Individual A's splitting his finder's fee from Investment Firm 1 by paying \$250,000 to a third party (Individual C). Levine allegedly instructed Loren to draft an agreement that would pass scrutiny if someone like the U.S. Attorney looked at it. Loren then drafted a sham contract for Individual A, instructed his secretary not to save the document on the computer, and gave it to Levine, the indictment alleges.

In a third aspect of the fraud scheme, Levine allegedly directed Loren to assist him in devising a method by which Levine could establish a company to serve as an asset manager for TRS, and Levine or his designees could participate financially in the operation of the asset manager without that participation being disclosed to TRS. In addition, Levine and Individual B agreed to try to find a way to benefit financially from Levine's position at TRS by putting someone in place as an asset manager for TRS or having a developer selected by Levine participate in transactions with that asset manager.

Cari is charged with the attempted extortion of Investment Firm 4.

The tax charge against Loren alleges that he corruptly endeavored to impede the IRS by drafting a sham consulting agreement for Individual A, at Levine's direction, to make it appear that certain payments to be made by Individual A to Individual C were legitimate business expenses that Individual A could list as a deduction and Individual C could report as legitimate income.

The government is being represented by Assistant U.S. Attorneys Jacqueline Stern, Reid Schar, Kaarina Salovaara and Christopher Niewoehner.

Upon conviction, the charges alleged in the indictment carry the following maximum penalties on each count: mail fraud, wire fraud and attempted extortion – 20 years in prison and a

\$250,000 fine; soliciting a bribe – 10 years and a \$250,000 fine; and impeding the IRS – three years in prison and a \$250,000 fine. As an alternative maximum fine, the Court could impose a fine of twice the gross profit to any defendant or twice the loss to any victim. The Court, however, would determine the appropriate sentence to be imposed.

The public is reminded that an indictment contains only charges and is not evidence of guilt. The defendants are presumed innocent and are entitled to a fair trial at which the government has the burden of proving guilt beyond a reasonable doubt.

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